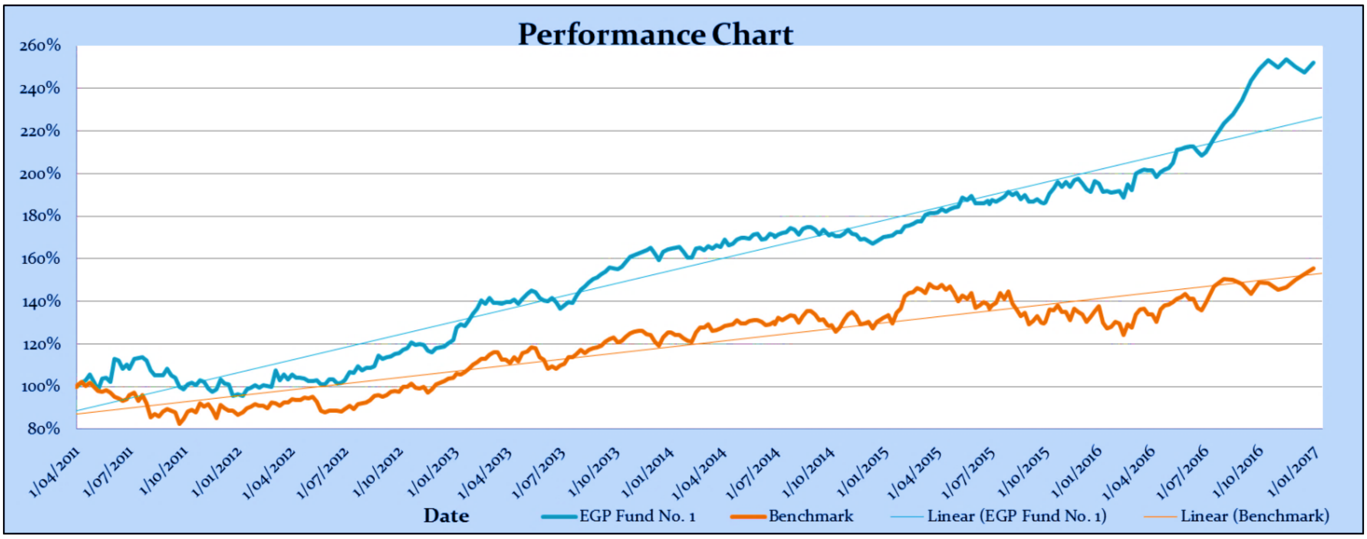
Eternal Growth Partners

EGP Fund No. 1 Pty Ltd
Address: Suite 2, Level 11, 37 Bligh Street
Sydney, NSW, 2000
Mobile: 0418 278 298

EGP Fund No. 1 – 31 December 2016

EGP Fund No. 1 Pty Ltd is an unconstrained investment company focused primarily on owning Australian listed businesses. It targets 3 – 5% annual outperformance of Australia's preeminent ASX200 index over the long term. Managed by a performance orientated co-owner, we run a portfolio that is genuinely different. The sole objective is to deliver the strongest possible risk adjusted returns. The fund manager has their entire investable asset base in the fund, meaning focus on risk is unusually intense.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY11										2.0%	0.2%	6.0%	8.39%
FY12	3.4%	-3.3%	-9.0%	3.5%	1.2%	-6.8%	4.7%	-0.8%	5.7%	-2.9%	0.9%	-0.5%	-4.98%
FY13	4.6%	5.0%	2.3%	3.2%	-1.4%	3.3%	7.7%	5.9%	0.5%	1.2%	0.2%	-3.5%	32.58%
FY14	4.5%	5.4%	3.3%	3.5%	1.9%	0.3%	-0.7%	0.4%	1.1%	2.0%	1.4%	-0.6%	24.71%
FY15	1.9%	0.0%	-1.4%	0.4%	-2.0%	1.2%	1.3%	2.9%	2.4%	1.3%	1.0%	-0.2%	9.04%
FY16	3.2%	-2.4%	-0.6%	4.2%	0.9%	0.0%	-2.0%	0.3%	4.9%	0.6%	4.8%	-1.0%	13.19%
FY17	6.4%	4.7%	6.4%	0.3%	0.1%	0.8%							19.96%



Calendar 2016 was a very good year for the fund with a return after fees of 29.02%. Our benchmark over the same period advanced by 13.56%. Given we target 3-5% annual outperformance, the 15.46% advantage was particularly pleasing. The customary reminder after a very strong period of outperformance is that fellow EGP'ers should keep their expectations somewhat grounded. The nature of market volatility will ensure that even if our methods are very sound (we think they are), that measured in any 12-month period; there will inevitably be periods where we underperform.

We think 3, or preferably 5 years makes a suitable period to determine whether an investment program is showing satisfactory results. On this basis, we are happy to report that the annual 7.9% advantage over 3 years and the 8.8% advantage annually over 5 years indicate that over our preferred periods of measurement, we are beating our own expectations. Whilst you're moderating your expectations, be aware that we will be working hard to ensure we continue to deliver results that exceed our own and hopefully your expectations for many years to come.

As we reviewed the performance of our portfolio in preparation for this report, three things struck us about how 2016 came to be a strong year:

1. First was the lack of any major errors. This reinforces our view that the avoidance of major mistakes is the most helpful thing we can do in terms of developing a superior long-term track record. If you avoid major capital losses, you get to keep all of the gains. It's wonderful. The 'Good, Bad & Ugly' has been a feature of our annual review process for the past few years, and we will skip it at this update as the 'Bad & Ugly' have made a welcome disappearance from calculations in 2016, long may they stay away!

2. The second thing was, as a concentrated investor, when your higher conviction positions perform well, you will do very well. Our three largest positions on December 31 2015 comprised more than 48% of our equity portfolio. Our three largest positions through 2016 were UOS, DDR and SDI (they ended the year 1st, 3rd and 4th largest – when you're on a good thing, stick to it).
   From end to end, ignoring additional purchases (which were substantial and cheap - we increased our holding in UOS by 23.9% in 2016, at an average price of less than 48.1cps, buying in January, February, April, July and November, and taking up our DRP shares in May and November) our Internal Rate of Return (IRR) in 2016 from UOS was 33.9%.
   From end to end, ignoring additional purchases (which were substantial and cheap - we increased our holding in SDI by 139% in 2016, at an average price of less than 49.5cps, buying in February, March, April, July and November) our IRR in 2016 from SDI was 37.1%.
   From end to end, ignoring additional purchases (which were meaningful and cheap - we increased our holding in DDR by 16.7% in 2016, at an average price of $1.40 per share, buying in January and February) our IRR in 2016 from DDR was 55.2%.
   Interestingly, we're of the view that UOS probably has a marginally wider Margin of Safety than at the same time last year. SDI and DDR have closed the gaps in their intrinsic valuation somewhat through 2016, but are priced to deliver satisfactory returns if their performance over the next few years is anywhere near what we think it will be.

3. Finally, the evenness/consistency of the portfolio was helpful. We made at least some money in nearly everything we owned, with only 2 positions recording any type of loss for the portfolio over the 12 month period. The first of these was a small position in ISentric Limited (ICU.AX) which from December 31 2015 to December 31 2016 subtracted 43 basis points (0.43%) from the results of the portfolio. The second was a slightly larger position in Flight Centre (FLT.AX), which didn't decline quite so much and cost the portfolio 20 basis points. We also recorded a loss in Hughes Drilling (HDX.AX) as blogged in Update 257, but we actually had an average sale price slightly exceeding the

starting price in 2016 for that stock, so that damage was already done before the year began. It is a rare year when if we remove our two worst errors from the portfolio, the end result would only improve by less than 1%. This is a feat we will be trying hard to repeat in 2017…

The fund finished December with 28 positions; our cash level was only 4.8%. It remains our intention to further reduce the number of holdings, and to lift the cash levels to nearer our preferred level of greater than 10%, but we intend to do so in the way that maximises our return, which will require patience. We deployed almost 3% of our cash into a short-term idea in December, where we think we can make between 10-25% on our funds over a fairly short holding period; we will mention the transaction in the blog when it is complete.

We remain well concentrated in our best ideas with 72.4% of our invested capital in our 10 largest holdings.

Fund features and portfolio analytics are set out in the table below:

Fund Features		Portfolio Analytics	
Min. initial investment (retail)	$10,000 (qualifying)	**Sharpe Ratio[1]**	**4.32**
Additional investments (retail)	$1,000 increments	**Sortino Ratio[1]**	**1.76**
Min. initial investment (Wholesale/Sophisticated)	$100,000 (qualifying)	**Annualised Standard Deviation**	**10.49%**
Additional investments (Wholesale/Sophisticated)	$10,000 increments	**Largest Monthly Loss**	**-9.0%**
Applications/redemptions	Monthly	**Largest Drawdown**	**-12.0%**
Distribution	Annual (31st May)	**% Of Positive Months**	**75.4%**
Management fee	0%	**Cumulative return[2]**	**152.13%**
Performance allocation	20%	**1 year return[2]**	**29.02%**
Auditor	True Elite Business Services	**3 year annualised return[2]**	**15.35%**
Custodian/PB	Interactive Brokers LLC	**5 year annualised return[2]**	**21.24%**
Benchmark Annualised Return Since Inception	**8.10%**	**Fund Annualised Return Since Inception[2]**	**17.45%**
Benchmark % Of Positive Months	**59.4%**	**Fund Size**	**$9.1m**

1 Sharpe and Sortino Ratios calculated using the Monthly Benchmark ASX200 Franking Credit Adjusted Annual Total Return Index Tax-Exempt

2 Return is net of all fees and costs and assumes reinvestment of dividends. 1, 3 and 5 year figures are rolling annualised figures.